



COUNCILMEMBER CARL DEMaIO

FIFTH DISTRICT
CITY OF SAN DIEGO

MEMORANDUM

DATE: April 21, 2009

TO: Honorable Mayor and City Council

FROM: Councilmember Carl DeMaio *Carl DeMaio*

RE: Pension Payments and Actuarial Assumptions

It has come to my attention that city staff have been exploring possible changes in the manner in which the city's Annual Required Contribution (ARC) for the pension system is calculated – with an eye on reducing the amount of the annual payment.

I write to express my **strongest opposition** to any effort by city management to manipulate the calculation of the annual pension payment.

In anticipation of City Council consideration of appointments to the pension board, I believe it important to raise this issue now so the Mayor, City Council and nominees can discuss and affirm the important fiduciary responsibilities entrusted to the pension board to independently and accurately calculate the ARC.

Responding to previous decisions by city management to manipulate pension system cost calculations, the current pension board – to its credit – has spent the past three years examining and strengthening its policies for calculating the annual payment.

I am very concerned that this progress is at risk of being undone. One idea being considered would involve separating out the ARC costs stemming from recent investment losses from the overall pension payment – spreading those costs for this coming year over the next four. It is important to note this four year payment would be taken after the smoothing of the investment losses that already occur. Another idea involves suspending the “corridor” requirement.

Proponents of both concepts argue that the market losses we have suffered in the past year are unprecedented and would justify such significant departures from the system's existing actuarial policies. Yet the city's own history does not validate this argument.

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The pension board included reforms in its actuarial policies to more fairly and appropriately treat market fluctuations.

Further to this point, recall that in 2004, the Pension Reform Committee (PRC) attributed only 6% of the "under-funded problem" to "investment performance." Conversely, decisions such as purposeful under-funding and benefit improvements were clearly identified as the major causes of the problem.

It is also important to note the applicability of the PRC's findings in today's economic climate. The PRC was appointed in September of 2003 -- only seven months after the worst monthly position of the S&P 500 Index in almost six years.

Instead of blaming market fluctuations for high pension costs, the city ought to continue to focus on the unsustainable level of retirement benefits provided to City employees. The recent imposition and agreement on labor concessions serves as a step in the right direction, but much work remains in bringing City employee compensation in line with the local labor market.

I am fully supportive of a proactive effort to look ahead and prepare for the looming FY 2011 budget deficit and its corresponding ARC payment. However, I must express my deep misgivings regarding potential advocacy on the part of the city management for changes to pension plan assumptions and/or regulations as a means of balancing the FY 2011 (or any) budget. As it has in the past, this practice would represent a simply unacceptable and fiscally irresponsible means of dealing with the City's financial difficulties.

CC: City Attorney
Independent Budget Analyst
Jay Goldstone, Chief Operating Officer
David Wescoe, SDCERS Administrator
Members of the SDCERS Board of Administration